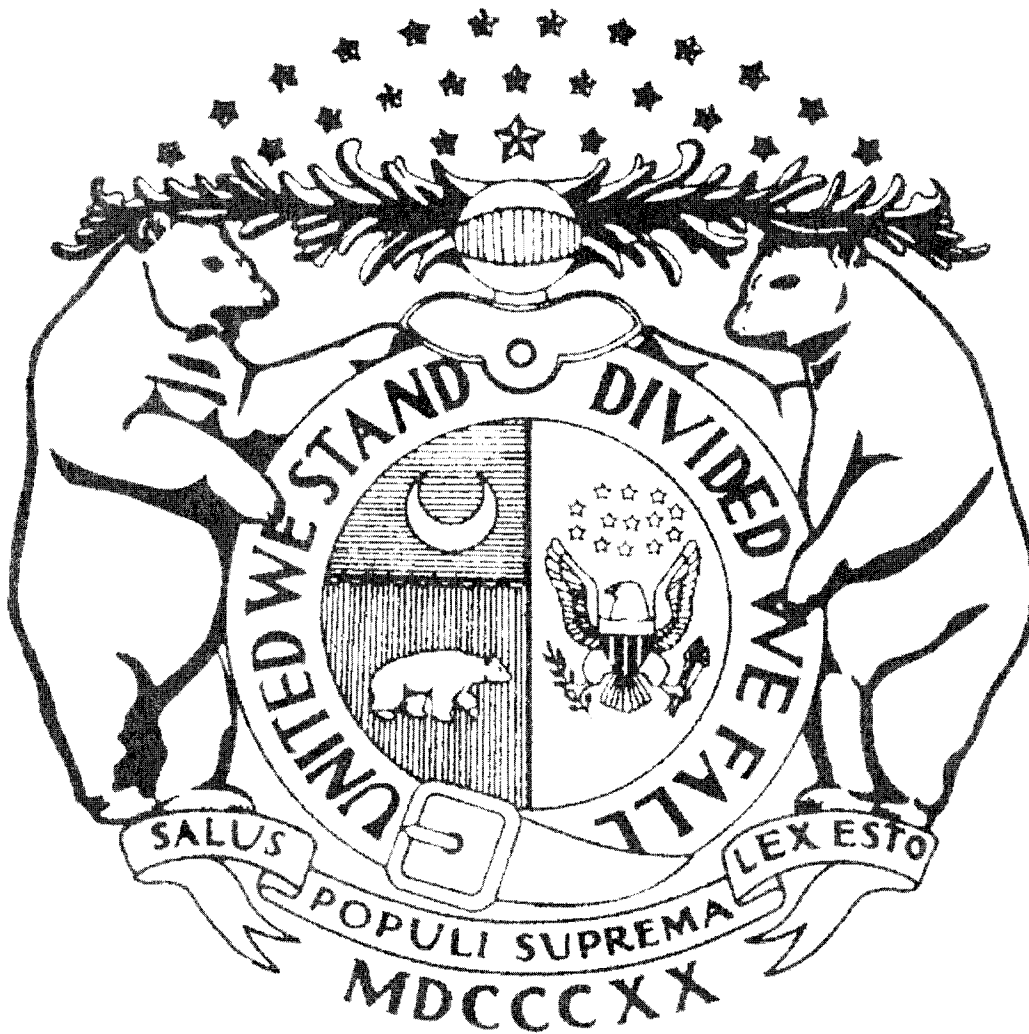


REPORT OF  
FINANCIAL EXAMINATION

**GALEN INSURANCE COMPANY**

As Of  
December 9, 2005



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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December 9, 2005  
St. Louis, MO

Honorable Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Dear Sir:

In accordance with your financial examination warrant, a pre-licensing examination has been made of the records, affairs and financial condition of

**Galen Insurance Company**

hereinafter referred to as "Galen" or the "Company". Its main administrative office is located at 7165 Delmar Blvd., Suite 215, St. Louis, Mo. 63130, and its telephone number is (314) 721-2366. This pre-licensing examination, which commenced on December 8, 2005 and was completed on December 9, 2005, is respectfully submitted.

**SCOPE OF EXAMINATION**

Procedures

This pre-licensing examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

**HISTORY**

General

Galen was organized under the laws of the State of Missouri on August 25, 2004 and was approved with the Missouri Secretary of State on December 8, 2004. The Company has applied for a Certificate of Authority to operate as an insurance company under Chapter 379, RSMo. and is awaiting approval.

The Company is a wholly owned subsidiary of Galen Insurance Management Company, Inc.

### Capital Stock

The Company was organized under Chapter 379, RSMo. Galen Insurance Management Company, Inc. owns 100% of the Company's capital stock. Pursuant to the Company's Articles of Incorporation, Galen shall be authorized to issue up to 1,000,000 shares of common stock (one vote per share) with a par value of \$2.50 per share. The Company was initially capitalized on November 11, 2005 by the issuance of 400,000 shares of common stock to Galen Insurance Management Company, Inc. for \$2.50 per share, representing all outstanding shares. Galen Insurance Management Company, Inc. also contributed \$1,000,000 to the Company on that same date, for a total initial capitalization of \$2,000,000.

### Management

Pursuant to the Company's Bylaws, the Board of Directors shall be elected, both initially and at annual meetings thereafter, by the majority of shareholder votes cast. A regular annual meeting is to be held each year on the first Monday in March as set forth in the Bylaws. The directors elected and serving as of the examination date were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Dale E. Doerr, M.D. St. Louis, MO	Orthopedic Surgeon
Dennis A. Dusek, M.D. St. Louis, MO	Orthopedic Surgeon
Ashok Kumar, M.D. St. Louis, MO	Physician
Matthew P. McCauley St. Louis, MO	Insurance Executive
Forbes A. McMullin, M.D. St. Louis, MO	Orthopedic Surgeon
Robert G. Medler, M.D. St. Louis, MO	Physician
George R. Schoedinger III, M.D. St. Louis, MO	Orthopedic Surgeon
Ravi V. Shitut, M.D. St. Louis, MO	Medical Doctor

Robert H. Sigmund, M.D.  
St. Louis, MO

Physician

Jan Vest  
St. Louis, MO

Chief Executive Officer  
Signature Health Services, Inc.

John B. Weltmer Jr., M.D.  
Town & Country, MO

Orthopedic Surgeon

Martin J. Zaegel  
St. Louis, MO

Chief Financial Officer  
Signature Health Services, Inc.

### Officers

The officers elected on December 10, 2004 and serving as of the examination date were as follows:

<u>Name</u>	<u>Office Held</u>
George R. Schoedinger, III, M.D.	Chairman
Matthew P. McCauley	President
Jan Vest	Vice President and Secretary
Martin J. Zaegel	Vice President and Treasurer

### Conflict of Interest

The Company has not yet established formal conflict of interest procedures.

The Company is directed to establish formal conflict of interest procedures and that conflict of interest statements be completed by all officers and directors on an annual basis.

### Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were approved by the Missouri Secretary of State on December 8, 2004, and the Bylaws were adopted and approved by the Incorporator on December 10, 2004.

### Surplus Debentures

The Company has not issued any surplus debentures.

## **AFFILIATED COMPANIES**

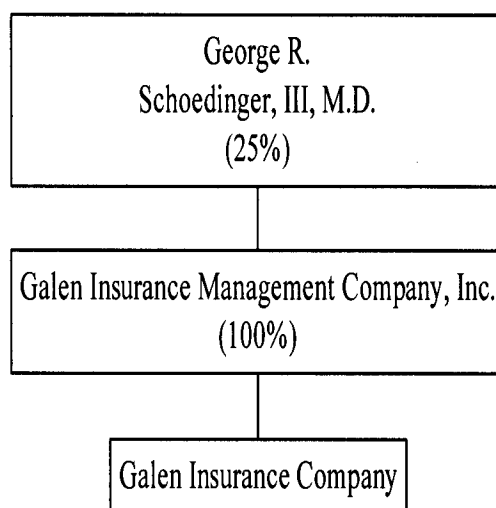
### **Holding Company, Subsidiaries and Affiliates**

Galen is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Insurance Holding Companies - Definitions). The Company's ultimate controlling person is Dr. George R. Schoedinger, III, M.D. based on his 25% ownership of Galen Management Company and his 11.1% ownership of Galen Equities, LLC, which in turn owns 50% of Galen Management Company.

Pursuant to Section 382.100 RSMo (Insurance Holding Companies - Registration), every insurer which is subject to registration shall file a holding company statement within fifteen days after it becomes subject to registration and annually thereafter by March first of each year. The Company filed a Form B on December 27, 2005, however this Form B was not accurate as regards to the holding company system and the ultimate controlling person. The Form B should accurately list Dr. Schoedinger as the ultimate controlling person and Signature Health Services, Inc. as part of the holding company.

### **Organizational Chart**

The following chart depicts an abbreviated organizational structure of the companies affiliated with the Company as of the examination date:



George Schoedinger, III, M.D. also owns 11.1% of Galen Equities, L.L.C.

### **Intercompany Transactions**

The Company has proposed a Management Services Agreement in which Galen Insurance Management Company, Inc. provides substantially all administrative services. These services will be billed at cost and the total costs are limited to 20% of gross earned premiums per quarter.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company currently does not have a fidelity bond or other insurance coverage. According to the NAIC Financial Condition Examiners' Handbook, the suggested minimum amount of fidelity insurance for a company with Galen's level of exposure is \$25,000.

The Company is directed to purchase a minimum of \$25,000 of fidelity insurance. The Company should also consider other insurance such as renters', general liability, directors and officers and umbrella coverage to ensure that its assets are adequately protected.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

Galen does not, and will not have any employees. All administrative functions will be performed by Galen Insurance Management Company, Inc. pursuant to the management services agreement. Therefore, the Company has no pension or benefit plans.

## **STATUTORY DEPOSITS**

### Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of the examination date were sufficient to meet the statutory deposit requirements for the state of Missouri in compliance with the provisions of Section 379.098, RSMo. The Company is required to maintain \$800,000 of acceptable securities with the state of Missouri. The funds on deposit as of the examination date, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>
U.S. Treasury Note	\$ 425,000	\$ 413,610
U.S. Treasury Note	50,000	49,250
U.S. Treasury Bond	<u>390,000</u>	<u>398,814</u>
Total	\$ 865,000	\$ 861,674

### Deposits with Other States

None

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

Galen was created to offer professional liability insurance for doctors. The Company plans to offer, to a carefully selected clientele, a claims-made professional liability policy. The clientele will initially consist of physicians practicing in St. Louis and the surrounding area.

The five-year projected financial statements provided by the Company do not appear unreasonable.

### **Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders**

The Company's professional liability policy form is under review by the Property and Casualty Section of the Missouri Department of Insurance.

## **REINSURANCE**

The Company has proposed an "Excess Loss Reinsurance Agreement" with Acordia Re, Inc. The Company's retention under this agreement is \$200,000 per policy. This retention is in compliance with 20 CSR 200.1010 (4), which states that the maximum net amount of risk retained on an individual risk shall not exceed 10% of the insurer's surplus.

## **ACCOUNTS AND RECORDS**

Pursuant to the management services agreement, all financial and reporting services will be provided by Galen Insurance Management Company, Inc.

The CPA firm Brown Smith & Wallace, LLC will perform an annual audit of the Company's statutory financial statements.

The Company's investments are held at The Commerce Trust Company, a division of Commerce Bank, N.A. The Company has executed a custodial agreement with the investment manager. However, this agreement does not contain many of the provisions listed in Part 1 (IV) (J) of the NAIC Financial Condition Examiners Handbook. Specifically, there is no provision stating that the custodian is obligated to indemnify the insurance company for the loss of securities in the custodian's custody.

The Company is directed to amend its Investment Management Agreement to include a provision that the custodian is obligated to indemnify the insurance company for the loss of securities in the custodian's custody and to include the other provisions listed in Part 1 (IV) (J) of the NAIC Financial Condition Examiners Handbook.



# **BALANCE SHEET AS OF NOVEMBER 30, 2005**

<b>ASSETS:</b>		<b>LIABILITIES:</b>	
Bonds	\$2,010,031	None	
Investment Receivable	<u>13,198</u>		
		<b>NET WORTH:</b>	
		Common Stock	\$1,000,000
		Contributed Capital	1,000,000
		Unassigned Funds	<u>23,229</u>
		Total Capital & Surplus	<u>2,023,229</u>
<b>TOTAL ASSETS</b>	<u><b>\$2,023,229</b></u>	<b>TOTAL LIABILITIES AND NET WORTH</b>	<u><b>\$2,023,229</b></u>

## **COMMENTS AND/OR RECOMMENDATIONS**

### **Conflict of Interest – Page 3**

The Company is directed to establish formal conflict of interest procedures and that conflict of interest statements be completed by all officers and directors on an annual basis.

### **Holding Company, Subsidiaries and Affiliates - Page 4**

The Company should amend its Insurance Holding Company System registration to properly reflect the ultimate controlling person and all affiliates.

### **Fidelity Bond and Other Insurance – Page 5**

The Company is directed to purchase a minimum of \$25,000 of fidelity insurance. The Company should also consider other insurance such as renters', general liability, directors and officers and umbrella coverage to ensure that its assets are adequately protected.

### **Accounts and Records – Page 6**

The Company is directed to amend its Investment Management Agreement to include a provision that the custodian is obligated to indemnify the insurance company for the loss of securities in the custodian's custody and to include the other provisions listed in Part 1 (IV) (J) of the NAIC Financial Condition Examiners Handbook.

## **CONCLUSION**

The Galen Insurance Company (Missouri) should be issued a Certificate of Authority to transact business as an insurance company in accordance with Chapter 379, RSMo

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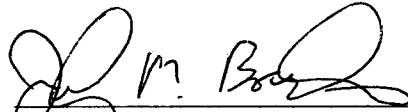
## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Galen Insurance Company (Missouri) during the course of this pre-licensing examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri )  
 ) ss  
County of St. Louis )

I, John M. Boczkiewicz, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as found reasonably warranted from the facts.

  
John M. Boczkiewicz, CPA, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 28<sup>th</sup> day of December, 2005.

My commission expires:

3/15/08  
Date

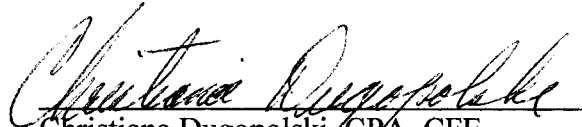
  
Gina Sansone  
Notary Public



GINA SANSONE  
NOTARY PUBLIC—STATE OF MISSOURI  
ST. LOUIS COUNTY  
MY COMMISSION EXPIRES MAR 15 2009

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Christiana Dugopolski, CPA, CFE  
Audit Manager  
Missouri Department of Insurance